TESTIMONY OF CHARLES A. HUNNICUTT

ASSISTANT SECRETARY OF TRANSPORTATION FOR AVIATION AND INTERNATIONAL AFFAIRS

BEFORE THE AVIATION SUBCOMMITTEE OF THE

SENATE COMMERCE, SCIENCE, AND TRANSPORTATION COMMITTEE

JUNE 4, 1998

Good afternoon, Mr. Chairman, and thank you for inviting me to testify on the subject of airline alliances.

I welcome the opportunity to appear today to comment on the development of both domestic and international aviation alliances and to discuss with you the competitive implications of such alliances for the aviation industry. Today's hearing is particularly timely in light of the recent round of proposed alliances and code-share agreements between a number of major airlines. However, since those alliances are pending before the Department, I'm sure you realize that I cannot comment on the merits of any particular case.

Airline alliances are not new. They come in a variety of sizes and shapes. They can be simple or complex. They can be domestic, international, or both. They can be pro-competitive or they can raise competitive concerns. I do not know which category the most recently announced domestic alliance proposals would fall into, but I assure you that the Department of Transportation, and we know that the Department of Justice, will examine them very closely.

I want to focus today on the role of the Federal Government, in particular the Department of Transportation, in assuring that airline alliances do not have an adverse impact on competition.

Let me first describe what we mean by an alliance. Airline alliances involve cooperative arrangements between two or more airlines that may lie anywhere between the two extremes of traditional, arm's-length interline agreements between carriers on the one hand, and full airline mergers on the other. Airline alliances typically include code-sharing arrangements (whereby the partners may sell seats on each other's flights using their own two-letter designator codes in the computer reservations system) and coordinated passenger and baggage check-in and handling. They frequently include coordinated scheduling, uniform standards of service, and reciprocal frequent-flier program benefits. Some involve joint travel agent commission programs; others use blocked-space arrangements. The most integrated strategic airline alliances can amount to "virtual" mergers of domestic or cross-border partners, including a degree of common ownership; coordination of pricing; standardization of equipment, services, and supplies; revenue and profit-sharing; and, for some international alliances, immunity from the antitrust laws.

Why are airline alliances so popular? Well, the purposes for establishing a significant strategic airline alliance are many:

to expand services to more markets in the least expensive way;

to operate more efficiently -- to increase revenues and to reduce costs, increasing profit margin;

to gain market share through stimulation of new passengers and cargo and diversion of traffic from competitors; and

to provide a seamless, hassle-free service that is attractive to travelers and shippers because it is functionally equivalent to service on a single carrier.

Role of DOT in Domestic and International Airline Alliances

Let me outline the powers and responsibilities that we have with regard to airline alliances. In brief, both the Department of Transportation and the Department of Justice have the authority to investigate such transactions, determine whether they will harm airline competition, and, if necessary, act to prevent such harm.

DOT's authority differs depending on whether an alliance is domestic or international.

Alliances between large airlines that have come before DOT in recent years have involved U.S. and foreign airlines rather than two U.S.-owned airlines. The parties to every international alliance that involves code sharing - i.e., those involving a U.S. and foreign carrier - must seek prior approval from DOT before they may implement the code sharing. Domestic alliances, on the other hand, do not require the Department's prior approval.

Generally, we have supported and promoted international alliances. In some cases we have granted antitrust immunity to international alliances, recognizing that immunity would produce heightened, rather than lessened, consumer benefits.

DOT's authority over international airline alliances stems primarily from 49 U.S.C. 41308 and 49 U.S.C. 41309. Under section 41309, the Department has the authority to approve international agreements between airlines that are not adverse to the public interest and do not substantially reduce or eliminate competition. The Department may approve an agreement that substantially reduces or eliminates competition if it finds that the agreement is necessary to meet a serious transportation need or to achieve important public benefits that cannot be met or that cannot be achieved by reasonably available alternatives that are materially less anticompetitive. Section 41308 grants the Department authority to exempt parties to such an agreement from the operations of the antitrust laws to the extent necessary to allow the person to proceed with the transaction, provided that the Department determines that the exemption is required in the public interest.

The primary responsibility for reviewing domestic airline alliances resides with DOJ's Antitrust Division. DOJ can examine any proposed domestic alliance, and determine whether it is likely to cause a significant reduction in competition in any relevant market. If it finds that an alliance may reduce competition, it may file suit in Federal court. DOJ may also negotiate a consent decree with the parties to the alliance, which could include the spin-off of certain operations or limits on their cooperation in certain areas. The Department of Transportation consults with DOJ during its antitrust deliberations and supplies data and policy input to DOJ. Nevertheless, it is DOJ that makes the ultimate decisions as to whether to challenge a given transaction under the antitrust laws in court.

However, the Department of Transportation has a responsibility to ensure that the U.S. airline industry remains competitive and has the authority to investigate domestic alliances. Our governing statute directs the Department in carrying out its responsibilities to consider the maintenance of airline competition -- and the avoidance of unreasonable industry concentration and excessive market domination -- as public interest goals. (49 U.S.C. 40101(a)(9), (10), and (12)). In addition, this Department has the authority and responsibility to prohibit unfair methods of competition and unfair and deceptive practices in the airline industry, which empowers us both to enforce the antitrust laws and to block anticompetitive practices that violate antitrust principles, even if they do not violate the antitrust laws. (49 U.S.C. 41712.)

The Department remains on guard against any potentially anticompetitive side effects of airline alliances, both domestic and international. Among the more formidable is the development of dominated hubs, where the incumbent hub carrier, owing to its dominant share of traffic, capacity, and airport facilities, is able to prevent or diminish competition to its services.

In this regard, we have issued a proposed policy statement on unfair exclusionary conduct, and we have formed a task force to examine airport access issues.

Domestic Airline Alliances

Modern airline alliances began with the creation by Allegheny Airlines (now U.S. Airways) of the Allegheny commuter system in the 1960s. In that process, Allegheny turned over many of its unprofitable low-density routes to small commuter carriers. In return, Allegheny provided common marketing and ground handling operations to its commuter contractors, who would feed traffic to Allegheny.

With the onset of airline deregulation in 1978, Allegheny (which had changed its name to USAir) initiated a reorganization of the Allegheny Commuter system to create the first true hub-and-spoke system based on an integration of jet and commuter airline service. USAir established large connecting banks at its principal hub airport of Pittsburgh. USAir's commuter partners provided service in short-haul, low-density markets from Pittsburgh, and medium- and long-haul passengers from the spoke cities then connected to USAir's jet services out of Pittsburgh. USAir later built similar hubs at Philadelphia, Baltimore, and Charlotte (the latter after its merger with Piedmont).

Subsequently, other major carriers entered into similar agreements with small feeder airlines, and began building their own hub-and-spoke networks. By the mid-1980s, all major U.S. airlines had major connecting hub operations, and many had multiple hubs.

In October 1994, Continental and America West formed the first wide-scale domestic alliance between two major U.S. airlines. Their agreement provided for code-sharing, shared frequent-flier programs, coordination of connecting services, and limited (non-controlling) common ownership. Subsequently, Northwest and Alaska entered into a similar alliance (but without equity ownership.)

Today, there are many simple domestic code-share arrangements between regional carriers and the major airlines. Some regional carriers have relationships with more than one major airline. These arrangements have not raised competitive concerns and, as a matter of regulatory policy, we have not examined them. Of course, if any information should come to our attention that raises competitive concerns about such an airline relationship, we would examine that information very carefully. The recently announced domestic alliances between our largest airlines obviously involve arrangements much larger in scale and more complex in detail, and may require a different approach.

More specifically, Northwest and Continental, the fourth and sixth largest U.S. carriers, as measured by domestic revenue passenger-miles, would offer code-sharing service, coordinate connecting schedules, share frequent-flier programs, and integrate certain common activities. In addition, Northwest proposes to purchase an equity stake in Continental. Likewise, Delta and United, the two largest domestic airlines, have proposed a similar alliance, though without any cross-ownership. Finally, American and US Airways, the third and fifth largest domestic airlines, have agreed to share their frequent-flier programs, and have announced their intention to negotiate a broader code-sharing alliance agreement in the near future.

The potential size and scope of these proposed domestic alliances among our six largest airlines warrant our close scrutiny. Consequently, we have requested that United and Delta, and American and U.S. Airways provide us relevant details about their respective proposed alliances. The Northwest/Continental agreement is already under review by the Department under our continuing fitness procedures because of the change in ownership, and by the Antitrust Division of the Department of Justice.

We intend to examine carefully the potential effects of these large domestic alliances. In particular, we will carefully consider whether they may reduce domestic competition, either in specific markets, or overall. As part of that examination, we will consider the potential impact of these alliances on the competitive capabilities of other major airlines, of new entrants, and of regional carriers. Our focus on the impact of large domestic alliances on other major airlines will be on whether competition will decrease or be eliminated. We will also examine whether the proposed alliances raise concerns about the continued ability of new entrants to enter underserved/overpriced markets. We will consult and cooperate closely with DOJ in order to ensure that the domestic airline industry remains vigorously competitive.

International Airline Alliances

The airline alliance movement is global in scope. There are 74 U.S. and foreign airline code-share relationships that have been approved by the Department that are currently in effect, including the recently approved American-TACA, Continental-Air France, and Delta-Air France code-share relationships. The Department has approved other alliances that have since expired or been terminated.

All international code-share agreements involving a foreign carrier must be submitted to the Department for prior approval. In considering whether to approve a proposed code-share agreement, the Department considers whether the agreement raises anti-competitive concerns, whether the operations involved are consistent with the relevant bilateral agreement (or the reciprocity arrangements if there is no formal agreement), and whether the agreement would advance our international aviation policy objectives, including advancing negotiations with our trading partners.

In 1987, United and British Airways proposed the first international code-sharing service between jet carriers. Their code-sharing agreement was limited to service in two markets (Denver/Seattle-London, via Chicago), but they coordinated their connections at O'Hare in many other markets. Other carriers subsequently entered into numerous similar small-scale code-sharing agreements in individual markets. Although they all included code-sharing, and many involved coordination of connecting services and frequent-flier program reciprocity, they remained limited in scope, often involved blocked-space agreements, and were essentially ad hoc devices for the participants to secure interior feed traffic in restricted bilateral aviation markets.

In September 1992, the U.S. and the Netherlands initialed the first Open Skies aviation accord, which provided for mutual unrestricted entry, behind and beyond route rights, and unrestricted pricing. It also provided that the U.S. would give favorable consideration to grants of immunity to joint ventures between U.S. and Dutch carriers. In response to the new U.S.-Netherlands accord, Northwest and KLM proposed the first comprehensive international aviation alliance. The alliance provided for mutual code-sharing, coordinated scheduling and pricing, revenue and profit-sharing, joint marketing and frequent flier programs, and a substantial investment by KLM in Northwest. The applicants requested antitrust immunity for their alliance. After careful review, including consultation with DOJ, the Department approved the alliance and granted antitrust immunity, subject to certain conditions.

In January 1993, British Airways and USAir (now U.S. Airways) reached a combined investment/alliance agreement. As part of the agreement, BA purchased a non-controlling equity interest in USAir, and agreed to purchase additional USAir stock in the event U.S. restrictions against foreign control of U.S. airlines should be relaxed. The two airlines also entered into a comprehensive code-sharing and marketing alliance, including exchange of frequent-flier programs. USAir also agreed to surrender its certificates to operate in the Philadelphia/ Baltimore/Charlotte-London markets, where it had competed against BA, in order to resolve the Department of Justice's concerns that the alliance would otherwise reduce competition in those markets.

In 1997, United and its various alliance partners announced the formation of the Star Alliance, linking the immunized United/Lufthansa/SAS and United/Air Canada alliances with unimmunized code-sharing alliances between United and Thai Airways and between United and Varig. This arrangement represents the first true global airline alliance.

Based on annual surveys published by Airline Business (June 1998 issue), in 1994 there were 280 international alliances identified involving 136 airlines. In 1997, there were 363 international alliances, an increase of almost 30%, involving 177 airlines. And in 1998, there are now 502 alliances, a further increase of over 38% from 1997, involving 196 airlines. In 1994, 58 or 26% of the alliances identified involved equity investments, while in 1997, 54 or 15% involved equity relationships, and in 1998 56 alliances, or 11%, involve equity relationships.

The principal reason for code-sharing agreements providing for cross-border arrangements is the recognition that no U.S. or foreign airline has been able to rely on its network -- and only its network -- to respond effectively to traveler demand for efficient, smooth, and seamless global air service. The development of single airline networks has been materially hampered by the bilateral system of aviation agreements under the Chicago Convention, which continue to prevent airlines from flying wherever they want, and by other factors, such as the enormous cost of developing a worldwide network. I should add that while mergers and acquisitions between and among international airlines could assist in the development of global systems, national ownership and citizenship laws now effectively limit or prevent these commercial responses.

The Department of Transportation issued the policy statement on international air transportation in April 1995. That statement declared our goal to negotiate Open Skies agreements wherever possible, and to negotiate liberalized bilateral agreements elsewhere. Our determination to liberalize the international marketplace stems from our recognition that, in order to compete effectively, airlines must have access to as many markets and customers as possible. We also recognized the need of airlines to flow traffic efficiently over their networks, and set forth our view that code-sharing and similar arrangements can meet these needs. Finally, we declared our belief that code-sharing can benefit consumers by increasing international service options and enhancing competition between carriers, particularly for traffic to or from cities behind major gateways.

We believe that linking networks on different continents often allows airlines to create better quality and more competitive service in literally thousands of markets around the globe. Across the Atlantic, for example, relatively few city-pair markets can sustain nonstop service and even fewer can support competitive nonstop service. Few, if any, individual carriers can unilaterally expand their networks beyond their foreign gateways to other continents due to the capital costs, infrastructure limitations, and the immense operating authority that would be needed to develop their own networks there. Linking existing networks and flowing additional passengers between them is not just an efficient way for an airline to serve most international markets, it is often the only way. In addition, the Department has seen that the opportunity to create alliances between U.S. and foreign airlines encourages foreign governments to reach Open Skies agreements with us.

Since most multinational alliances are formed by linking networks in different parts of the globe, they tend to be more like end-to-end mergers. Thus, they tend to have limited service overlap while enabling improved service (improved coordination of connections) that is more competitive with other carriers and alliances in many markets. Such alliances are likely to be procompetitive overall. This is not to say that all alliances are necessarily procompetitive. We must weigh any adverse effects against possible consumer benefits. We must review each one on a case-by-case basis to determine whether or not consumers will benefit overall.

In 1995 and 1996, the U.S. initialed Open Skies agreements with a number of European nations, including Austria, Belgium, Denmark, Germany, Norway, Sweden, and Switzerland. Pursuant to these agreements, the Department received applications for approval of and antitrust immunity for alliances between (1) Delta, Austrian, Sabena, and Swissair; (2) United and Lufthansa; (3) United and SAS; and (4) United, Lufthansa, and SAS combined. Upon review, we determined that these alliances would increase competition in the transatlantic marketplace. However, the Department of Justice's Antitrust Division and the alliance partners agreed to certain conditions based on concerns that the alliances might unduly restrict competition for certain types of passengers in a handful of local city-pair markets. Accordingly, our approval of these alliances was conditioned on the applicants' exclusion of certain local fares in these markets from their coordination processes, in order to ensure that the alliance partners would continue to compete against each other in these markets, until we could examine this area more closely and review the actual experience. We also required the foreign-flag alliance partners to file data similar to data already filed by U.S. carriers, and required all alliance partners to withdraw from IATA tariff conferences for passengers traveling between their home countries (or the foreign home countries of other immunized alliances) and the U.S.

Similarly, in 1995 the U.S. and Canada signed a new, liberalized, open transborder bilateral aviation agreement. Although it does not meet our definition of an Open Skies agreement, it did provide for immediate deregulation of pricing in the U.S.-Canada market, and (after a three-year phase-in period) for full freedom of entry or exit for U.S. and Canadian carriers. Pursuant to this agreement, we received applications for approval of and antitrust immunity for alliances between (1) American and Canadian Airlines International; and (2) between United and Air Canada. As with the transatlantic alliances, upon review we found that the alliances would have an overall pro-competitive effect, but (upon conferring with DOJ) that three individual city-pair markets might suffer anti-competitive effects. We therefore imposed similar conditions on these two alliances, requiring the alliance partners to continue to compete with each other in these city-pair markets. Furthermore, because of the U.S.-Canada agreement's continuing restrictions on third-country, fifth-freedom code-sharing operations and on transborder all-cargo operations, we withheld approval and immunity for such operations, limiting our approval to U.S.-Canada passenger and belly freight services.

In approving the two U.S.-Canada agreements, we concluded that the U.S.-Canada market was sui generis. In particular, we noted the substantial differences in aviation relationships between the U.S.-Canada market and other U.S. international markets. Among other things, the U.S.-Canada aviation market supports more U.S. gateways, nonstop city-pairs, diverse airlines, and competitive routings and service options than any other international aviation market. The volume of service and traffic dwarfs that in any other bilateral market. At the same time, we reiterated our commitment to insisting on Open Skies agreements with other nations as a condition for granting antitrust immunity on overseas routes to any alliances between a U.S. airline and a foreign airline.

We have also recently approved a number of international airline alliances that do not involve antitrust immunity. The most important of these were alliances between United and Mexicana, between Delta and Aeromexico, and, most recently, between American and the TACA group of six Central American carriers. In the American/TACA case, as in several of the immunized alliances, we imposed conditions and restrictions on the alliance, in order to ensure that competition would be maintained in certain markets.

In addition, we have received applications for approval of a number of other international airline alliances, some requesting antitrust immunity, and others not. Among these are proposed alliances between American and British Airways and between American and LAN Chile. These alliances are currently under review by the Department, so I cannot comment on their merits.

U.S.-EU Negotiations

I next want to discuss our interaction with the European Union on aviation matters. The European Union member states have thus far not given the European Commission complete negotiating authority for aviation. Nevertheless, the EU Council of Ministers has granted the Commission a limited mandate to begin discussions on "framework" issues (so-called "soft rights"), such as competition policy and dispute resolution, and the Commission has already established authority in areas such as computer reservations system (CRS) rules. The Council, however, has thus far not given the Commission the power to negotiate traffic rights and other so-called "hard rights" such as capacity and pricing.

The United States has frequently stated its willingness to negotiate with the Commission toward a liberalized transatlantic aviation regime. We have also indicated that we are not prepared to negotiate on the basis of anything less than a comprehensive package--we will not make commitments on soft rights unless the EU is willing and able to make commitments on hard rights.

We have held two rounds of preliminary discussions (not actual negotiations where commitments are made) with the Commission, to explore the terms of its mandate, current EU aviation policies, and the direction it would take if it receives a full mandate. We found that we are in agreement with the EU on the basic principles of liberalization.

In the meantime, the EU member states are continuing individual bilateral negotiations with the U.S. We expect that under any future negotiating scenario our existing open-skies and other bilateral agreements will be respected.

EU Review of Airline Alliances

The Commission's Competition Directorate has been reviewing the United-Lufthansa-SAS alliance, the American-British Airways alliance, the Delta-Austrian-Sabena-Swissair alliance, and the Northwest-KLM alliance since late 1996. It is approaching decisions on United/Lufthansa/SAS and American/British Airways. The latest information we have is that the proposed decisions will be presented to the full Commission in late June or early July. After approximately 30 days for public comment and consultation with member states, the decisions would go back to the Commission for consideration of a final decision.

DOT has granted approval and antitrust immunity to all of the alliances except the American-British Airways alliance, which is pending before the Department.

We are in agreement with the Commission that each alliance should be thoroughly reviewed, and should only be approved if it has an overall positive impact on competition. Where negative effects on competition are identified, it is entirely fitting to apply appropriate conditions on approval, and we have done so in our approvals of the transatlantic alliances, as well as others operating in the Western Hemisphere.

We believe that the immunized alliances, in conjunction with open-skies agreements, enhance overall competition and consumer benefits, and that any competitive problems in the alliance's hub-to-hub routes can be resolved through focused conditions. The Commission has apparently not shared this view. The Commission is considering requiring the alliances to reduce frequencies in key hub-to-hub routes if another carrier enters those markets. If implemented, these remedies could hamper an alliance's ability to flow passengers over its network and could reduce the volume and quality of services available to the public. Such remedies also ignore the potential benefits of broader competition over extensive airline networks. We also have some concerns about the methodology related to surrender of slots for operations in non-hub to hub markets.

In addition, the Commission is weighing several other conditions on the alliances, involving CRS displays and code sharing, travel agent commissions and corporate contracts, frequent flyer programs, and interlining. While DOT is considering some of the same issues, the Commission's focus is on alliances in specific markets. These marketing practices are so fundamental to the online business that they require a broader perspective. These practices might merit some modifications in the future, but a systematic broad understanding needs to be established. An ad hoc modification of frequent flyer mileage programs, corporate contracts, and other practices could have unintended consequences, such as shifting service to other routings. We are conducting a broader approach, as typified by our ongoing CRS review, airport practices study, and draft competition guidelines.

We have discussed our concerns with Commission officials, and contacts are continuing. If the Commission nevertheless adopts conditions different from those that DOT has required of the alliances we have already approved, we will carefully review them and consider all our options at that time. As regards the American-British Airways alliance, on which DOT has not yet acted, our procedures require us to make our decision based on the record of the case as developed in the course of our investigation.

Competitive Effects of Alliances

The international alliances that we have approved have proven to have manifold consumer benefits. Our data show that traffic for transatlantic Open Skies alliances is growing faster than the transatlantic market overall. They also show that the traffic growth is predominately in connecting markets that had been particularly poorly served under the previously highly regulated environment.

For example, the traffic growth for the first major alliance--Northwest and KLM--has been astonishing, and the growth is clearly attributable to the network effect of the alliance. Traffic carried on the alliance's Minneapolis/Detroit-Amsterdam market has increased more than six-fold, much of it flow traffic in previously underserved connecting markets. The Northwest/KLM alliance now provides coordinated connecting service in over 5,000 transatlantic city-pair markets.

More recent alliances also show strong traffic growth in connecting markets. Both the United/Lufthansa/SAS and Delta group alliances provide connecting service in thousands of city-pair markets.

The effects of major domestic alliances are less clear. Hitherto, virtually all domestic code-sharing alliances have been between large carriers and smaller regional airlines. These alliances have proven procompetitive, as they have allowed most large airlines to extend their own networks to virtually every point in the country, providing consumers with alternate, competitive, connecting service in the vast majority of city-pair markets. Like the international alliances, the relationships between the major jet carriers and their commuter partners most nearly resemble end-to-end mergers, where the commuters serve low-density short-haul markets to their major airline partners' hub cities, while the majors provide jet service in medium and large markets. As a consequence, they have proven to be procompetitive on the whole.

The recently proposed alliances between major U.S. airlines, however, may differ substantially from existing domestic and international alliances. For example, the alliance partners may already compete--with either direct or connecting service, and with either jet or prop-commuter service--in many of the markets in which they propose to code-share; thus, instead of increasing online competition in connecting markets, their alliance arrangements may result in fewer competitive options. Their combined operations at some airports may give the alliance partners together sufficient mass to gain or increase market power at those airports. Furthermore, the domestic market has been deregulated for twenty years, and (within the limits set by the antitrust laws) there are no legal barriers to mergers and acquisitions within the domestic airline industry. As a consequence, in order to extend their networks in domestic markets, airlines have less need to form alliances than they do in international markets.

On the other hand, some or all of these alliances may prove to have significant pro-consumer and pro-competitive benefits similar to those we have seen in international alliances. For example, the airlines claim that they will offer seamless service in many markets now lacking such service.

In our review of the proposed domestic alliances, we will examine all their potential effects on competition, and will carefully weigh their overall effect on domestic competition and consumer welfare.

Future of Aviation Alliances

As national economies become more integrated with each other, there is an increasing need for firms in all industries to stretch beyond the borders of their own homeland countries. This is particularly necessary for firms in the U.S., the world's largest economy and trading nation. It is equally paramount in transportation.

Indeed, transportation is one of the keys to growth in global trade, and is essential for the worldwide movement of people and goods. Consequently, expanding transportation will be a key factor in sustaining global economic growth.

Many countries, however, including the U.S., place restrictions on foreign ownership of their respective domestic airlines. The only way, therefore, for U.S. airlines to extend their reach to the hinterlands of foreign countries, or for foreign airlines to do business in interior U.S. points, is through airline alliances. As a consequence, further development of international airline alliances--by expanding competitive service to more markets--will be essential to the future growth of international aviation and the global economy. But this will require us to reach Open Skies agreements with as many foreign countries as possible.

To date, we have reached 31 Open Skies agreements, including our recent agreement with Korea (our second largest Pacific market). In addition, we have recently achieved liberalized aviation agreements with France and Japan. Certainly, the prospect of future alliances with U.S. carriers and the attractiveness of the large U.S. market have led other countries, with the support of their carriers, to reach Open Skies or more liberalized aviation agreements with the U.S. The United Kingdom, however, continues to resist our efforts to reach a full Open Skies bilateral arrangement.

We also foresee that the current system of domestic commuter code-sharing alliances between major carriers and smaller regional airlines will continue to be a key factor in the domestic aviation industry. These code-sharing relationships have played, and will continue to play, a critical part in linking smaller communities with the national transportation system, and bringing the benefits of competitive airline service to the greatest number of passengers.

The future of major domestic alliances, however, is less clear, and will depend critically on our review of the recently proposed alliances, as well as the Department of Justice's review.

Congress has delegated to the Department of Transportation responsibility for preserving, enhancing, and promoting a competitive aviation industry, both domestically and internationally. We believe airline alliances have been a highly effective means of promoting those goals, and are committed to the further expansion of competition. To that end, we will continue to encourage further expansion of airline alliances where they promote competition, while remaining vigilant against any potential anticompetitive effects.

Mr. Chairman, this concludes my prepared remarks, and I would be happy to respond to any questions that you or the other members of the subcommittee may have. As you know, however, we have several contested antitrust-immunity and non-immunity code-share applications pending at DOT. Because of our ex-parte rules, I cannot answer substantive questions about specific applications. But I would be pleased to answer any questions you have about our general policy.